Latest From the Markets

20 April 2020

Economy and Markets Update

As had been expected, the People's Bank if China (PBOC) reduced the 1 and 5 year Prime Loan Rate (the rate at which banks lend to their best customers) by 20 basis points to 3.85% and 10 basis points to 4.65% respectively.

The stock markets regained some optimism on Friday thanks to three main factors:

1. The publication of Chinese GDP data for Q1. Figures were low, but not as low as had been expected, this was combined with good data on industrial production in March at -1.1% compared to -7% forecast.
2. US President Donald Trump's plan for a gradual reopening of the US economy in three phases. The first phase may be implemented if a federal state has experienced a decline in contagions for 14 consecutive days and if it has sufficient means to carry out extensive swabs and to ensure the protection of workers in the health care system. The fact that he chose to use 'recommendations' rather than 'executive orders' was appreciated because, contrary to Trump's initial position, it gives individual governors autonomy to plan the three phases in detail, according to the development of the pandemic. Some criticism has been levelled mainly by the scientific community and political opponents of the Democratic Party because there is no clear definition of what concrete results are necessary in order to move from one phase to another and, above all, what action to take in the event of a renewed outbreak during one of the three phases.
3. Growing evidence reported by medical publications that the clinical trials of an antiviral drug, under development by a listed biotechnology company, are encouraging in the treatment of serious respiratory symptoms caused by Covid-19. While the company did not comment on the effectiveness of the tests, it has expanded the number of participants in its clinical trials to 6,000 patients from 2,400 on prior clinical trials. The results are expected to be released at the end of April.

On the corporate earnings front, this week will see about one-fifth of the companies in the S&P 500 index reporting quarterly data. The downward revisions to analysts' estimates have continued and now the consensus is that returns are expected to fall by -12.8% for the quarter, compared to the -4.7% forecast at the beginning of April. The forecast average contraction in returns of -13.6% for all of 2020, while a +22.8% rebound is expected in 2021; however, individual forecasts diverge greatly, due to uncertainty about the future development in the pandemic.

On the corporate earnings front, the publication of financials in the US continued with Morgan Stanley, one of the most important stocks in the sector, which saw a 32% drop in profits compared to the same quarter last year. The wealth management division, which accounts for 50% of sales, saw its business volume fall 8%, advisory fees in investment banking fell 11%, while as with other investment banks, trading activity grew 30% thanks to extreme volatility in equity and bond markets in the latter part of the quarter.

In Europe, the pandemic’s evolution is uneven. Countries such as Italy and Spain show some signs of moderation in the growth trend of contagions, deaths and, above all, admissions to intensive care, while other countries such as France and the UK are still seeing the virus spreading. It should be noted that the data must be interpreted with caution, since the number of new infections recorded is a function of how many tests can be carried out and this number varies greatly from day to day.

On the economic and political front, this week is very important because the European Council is scheduled to meet on Thursday April 23. It is expected to give its opinion on the proposals made by the Eurogroup, which reached an initial informal agreement between the finance ministers of the Eurozone countries on April 10. Unlike the Eurogroup, which is an informal meeting outside the EU institutions proper, the European Council brings together all the heads of government of the member states and gives the real political impetus to the EU institutions.

Friday’s Market Roundup

Asian markets reacted well to China's GDP figures, which were in line with expectations, and Trump's plan to reopen the US economy in three phases. The Japanese Nikkei 225 index rose by +3.15%, South Korea and India by +3.2%. Hong Kong and China also rose +1.56% and +1% respectively.

The European markets also closed positive, although below the highs reached during the day. The Eurostoxx 50 index closed with an increase of +2.7%, after reaching a peak in the morning at +4.2%. The French CAC 40 rose +3.4%, the German DAX +3.15%, while Italy and Spain closed well, but not as strongly, at +1.7%. London climbed +2.8%. Wall Street also closed well with the S&P 500 index up +2.7% and the Dow Jones Industrial up 3%. Nasdaq up more modestly at +1.4%.

Yields on the 10-year US Treasury rose slightly to 0.64% (+2 basis points) and those on the 10-year Bund remained unchanged at -0.47%. The Italian spread with Germany narrowed by 11 basis points to 226 basis points.

In Commodities, the price of oil remained stable with Brent at $28.1 per barrel, while gold corrected by -2% to $1,684 per ounce. Slight weakening of the USD against Euro at 1.0870.

Today's Opening Bell

Contrasting openings in Asia this morning with the Japanese Nikkei 225 index down by -1% and Australia by -1.3% with half an hour to go. China after a negative opening turns into positive territory with the CSI 300 index at +0.2%. South Korea is down by -0.6%, while Hong Kong is unchanged and India rises by +0.5%.

Oil is down, with Brent down by -1.75% to $27.6 per barrel, while US WTI is down by -19.6% to $14.7 per barrel. Gold is stable at $1,680 an ounce. The USD is also stable against the Euro at 1.0870. European futures are upwards at +1.3% and those for the US down slightly to -0.35%.

Our View:

- In most cases stock markets closed strongly, thanks to the rebound seen last Friday. Europe, where the Eurostoxx 50 index closed unchanged, was the exception; nonetheless, it did recovery strongly from the lows seen on Wednesday.
- This week, investors' attention will be focused on the continuing Q1 'reporting season' and the outcome of Thursday's European Council.

Date of First Use: 20 April 2020

Doc ID: 1157803